

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 1483 - HB 1581**

March 29, 2021

**SUMMARY OF BILL:** Creates a sales and use tax holiday on goods sold by small businesses under \$500, and on the sale of food and drinks by restaurants and music and entertainment venues, from Friday September 3, 2021 to Monday September 6, 2021.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue - \$10,271,000/FY21-22**

**Increase State Expenditures - \$4,400,400/FY21-22**

**Increase Local Revenue - \$209,000/FY21-22**

Assumptions:

*General:*

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 67-6-710(h), the state will reimburse any local losses of revenue from sales tax holidays; therefore, any decrease in local revenue will correspond with an increase in state expenditures to reimburse locals for such loss.

*Food and Drink by Restaurants and Music Venues:*

- The state collection of sales and use taxes from eating and drinking places in September of 2019 was \$82,679,241.
- Therefore, the total taxable sales are estimated to be \$1,225,456,789  $\{ \$82,679,241 / [7.0\% - (7.0\% \times 3.617\%)] \}$  for the month of September.
- The average taxable sales per day in September are \$40,848,560  $(\$1,225,456,789 / 30 \text{ days})$ .
- Because the dates in the proposed legislation cover a holiday weekend, Bonnaroo, and the first football game of the season for the University of Tennessee, it is estimated that spending at such venues will be increased by 50 percent over the average day, or \$61,272,840  $[ (\$40,848,560 \times (100\% + 50\%)) ]$ .
- The four-day sales are therefore estimated to be \$245,091,360  $(\$61,272,840 \times 4)$ .

- Based on information from the Department of Revenue (DOR) and the Small Business Association's 2020 Small Business Profile of Tennessee report, it is estimated that small businesses make up to 30 percent of sales; therefore \$73,527,408 ( $\$245,091,360 \times 30\%$ ), will be eligible for the sales and use tax exemption under this proposed legislation and not under the small business exemption of this legislation.
- The one-time decrease in state revenue is estimated to be \$4,960,755 [ $(\$73,527,408 \times 7.0\%) - (\$73,527,408 \times 7.0\% \times 3.617\%)$ ].
- The one-time increase state expenditures to reimburse locals is estimated to be \$2,024,349 [ $(\$73,527,408 \times 2.5\%) + (\$73,527,408 \times 7.0\% \times 3.617\%)$ ].

*Small Businesses:*

- Based on information from the Department of Revenue (DOR) and the Small Business Association's 2020 Small Business Profile of Tennessee report, \$86,300,000 in taxable sales from small businesses will be exempt over this four-day sales tax holiday, not from restaurants.
- The one-time decrease in state revenue is estimated to be \$5,822,497 [ $(\$86,300,000 \times 7.0\%) - (\$86,300,000 \times 7.0\% \times 3.617\%)$ ].
- The one-time increase in state expenditures to reimburse locals is estimated to be \$2,376,003 [ $(\$86,300,000 \times 2.5\%) + (\$86,300,000 \times 7.0\% \times 3.617\%)$ ].

*Totals:*

- Fifty percent of tax savings, or \$7,591,802 [ $(\$4,960,755 + \$2,024,349 + \$5,822,497 + \$2,376,003) \times 50\%$ ] will be spent in the economy on other sales-taxable goods and services.
- The one-time increase in state revenue is estimated to be \$512,204 [ $(\$7,591,802 \times 7.0\%) - (\$7,591,802 \times 7.0\% \times 3.617\%)$ ].
- The one-time increase in local revenue is estimated to be \$209,017 [ $(\$7,591,802 \times 2.5\%) + (\$7,591,802 \times 7.0\% \times 3.617\%)$ ] in FY21-22.
- The total one-time decrease in state revenue is \$10,271,048 ( $\$4,960,755 + \$5,822,497 - \$512,204$ ) in FY21-22.
- The total one-time increase in state expenditures is \$4,400,352 ( $\$2,024,349 + \$2,376,003$ ) in FY21-22.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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